

**UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION**

Electricity Market Design and Structure       )       Docket No. RM01-12-000

Regional Transmission Organizations       )       Docket No. RT01-100-000

**SUPPLEMENTAL COMMENTS OF SMI STEEL, INC.,  
NUCOR STEEL-ARKANSAS, NUCOR-YAMATO STEEL, NUCOR  
STEEL-SOUTH CAROLINA, AND SMI STEEL-SOUTH CAROLINA,  
ON ELECTRICITY MARKET DESIGN AND STRUCTURE**

Nucor Steel-Arkansas, SMI Steel, Inc., Nucor-Yamato Steel, SMI Steel-South Carolina and Nucor Steel-South Carolina (collectively “Steel Producers”) hereby submit these supplemental comments in response to the Commission’s *Notice Inviting Comments on Wholesale Market Activities*, dated November 20, 2001. Steel Producers previously submitted comments in RM01-12-000 on the core issues related to the development of efficient electricity markets within Regional Transmission Organizations (“RTOs”). Those comments, filed on November 21, 2001, are incorporated in these supplemental comments by reference.

**I. INTRODUCTION**

In their November 21 comments, Steel Producers offered general observations on various topics addressed by the Commission during RTO Week. In these supplemental comments, per the direction of the Commission, Steel Producers comment specifically on wholesale activities within the Southeast region of the United States.

Steel Producers’ facilities are located in several states throughout the Southeast. At these facilities, steel is produced using a recycling process that employs electric arc furnaces (“EAFs”). EAFs consume vast amounts of energy in the process of melting, and

recycling, scrap steel. The availability of economic and reliable electricity is indispensable for this type of steel manufacturing. Accordingly, Steel Producers have a keen interest in the creation of RTOs and the establishment of regional electricity markets in the Southeast.

Steel Producers believe that as many RTO functions and wholesale market activities as possible should be centralized in one entity, as opposed to being apportioned among several entities under the RTO. The entity that serves as the RTO must be independent, and its fiduciary duty should be to customers, not shareholders. Also, the RTO must cover transmission of all types regardless of ownership. This is especially important in the Southeast, where a sizable portion of the transmission system is publicly owned. Failure to cover non-jurisdictional facilities will result in an RTO riddled with holes, and it would be impossible to establish effective wholesale markets within such a structure.

## **II. DISCUSSION**

### **A. RTO Functions Should be Centralized in the RTO.**

The Commission's November 20 *Notice Inviting Comments on Wholesale Market Activities* asks: "[i]f [some wholesale market] activities are shared or coordinated among separate organizations within an RTO region, how would you suggest that these functions be apportioned?" Steel Producers maintain that as many RTO functions and wholesale market activities as possible should be centralized in the RTO. Proponents of RTO plans that call for the apportionment of RTO functions among several different entities should bear the burden of demonstrating that such a distribution of power will not in any way diminish the effectiveness of the RTO in operating efficient markets.

All discussions with regard to RTO functions and wholesale market activities within an RTO must begin and end with the key, indispensable characteristic that an RTO must have if it is to be successful: independence. If an RTO is not independent in both actuality and perception, it will fail because consumers will not have faith in the markets it administers. Steel Producers believe that the independence of an RTO is compromised if the core RTO functions are not vested in one central entity. Distributing RTO functions among many different entities within the RTO could result in duplication of functions and costs and in the pursuit, by some entities, of purely self-serving objectives. In short, this dispersal of power threatens to perpetuate the very problem the Commission sought to remedy when it issued Order No. 2000: a balkanized transmission system that hinders wholesale competition.

Unfortunately, numerous RTO proposals, including both RTO platforms that emerged from the Southeast RTO mediation, disperse core RTO functions among many different entities. The Southeast RTO mediation resulted in two competing models: the SPG model and the SeTrans model. Both proposals divided the core RTO functions among two or more entities. Under the SPG model, the RTO functions would be divided among a transco, an independent market administrator (“IMA”) and an undefined number of Independent Transmission Companies (“ITCs”). *See* Mediation Report for the Southeast RTO, 96 FERC ¶ 63,036 at 61,181-187 (2001). At the conclusion of the mediation, the SeTrans model divided the core RTO functions between an independent system administrator (“SA”) and a transco that would function under the SA. *See id.* at 65,202-205. Recently, however, the SeTrans model was modified to include ITCs. *See*

SeTrans Supplemental Status Report, Docket Nos. RT01-100, RT01-77 and RT01-75, filed November 20, 2001.

Significantly, it appears that in both models, the plan proponents changed their proposals to add new entities (in the SeTrans model the transco, and in the SPG model the IMA) and assigned RTO functions to these entities in order to attract participants to their models; not because the proponents believed these new structures would perform the RTO functions in the most efficient and effective manner. In fact, the SPG proponents were so dubious about the inclusion of the IMA in their model that they reserved the power to eliminate the IMA after five years. *See* Mediation Report for the Southeast RTO, 96 FERC at 65,185.

Attracting as many transmission owners within a region as possible to participate in an RTO is of vital importance to the success of an RTO (*see* discussion below). However, the Commission should approve the apportionment of functions to several different entities within the RTO only if the Commission concludes that such a structure is the most effective means to perform the RTO functions and operate the wholesale markets within the region. Steel Producers believe that a model that centralizes as many RTO functions as possible in a non-transmission owning entity will prove to be the best model in the Southeast.

**B. The Southeast RTO Must be Inclusive of All Transmission Owners.**

Steel Producers maintain that an RTO must be inclusive of all transmission owners within its region if it is to effectively operate wholesale markets. An RTO that is full of holes simply will not be an environment amenable to the development of fluid, competitive wholesale markets.

In the Southeast region, the SeTrans model has attracted the participation of investor-owned utilities and public power alike (this was the case even before the SeTrans proponents incorporated a transco into their model). In contrast, the SPG model has attracted almost no non-jurisdictional participation whatsoever. The main reason for the failure of the SPG model to attract non-jurisdictional transmission owners is that the SPG model has a transmission-owning transco “on top.” Despite the assurances of the SPG proponents that all transmission owners participating in the RTO will be treated alike, non-jurisdictional transmission owners have not been convinced that the transco will not discriminate in favor of its own facilities.

A model that has an independent SA as the RTO is naturally more attractive to non-jurisdictional utilities, and, therefore, is the platform best suited for the Southeast. Since an independent SA would not own transmission, it would have no incentive to favor its own facilities over those of other participating transmission owners. Also, the SA would be more likely to earn its profits based on the performance of the transmission system as a whole, rather than by maximizing the value of its physical transmission assets, as would be the case with a transco.

### **III. CONCLUSION**

Steel Producers believe that the Commission must ensure that as many RTO functions and wholesale market activities as possible remain in the RTO. Steel Producers also believe that a platform that has an independent SA as the RTO is the best platform

for a Southeast RTO.

Respectfully submitted,

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### **CERTIFICATE OF SERVICE**

I hereby certify that I have this 7th day of December, 2001, served the foregoing document upon the parties identified on the Commission's official service list by depositing copies thereof in the United States mail, first class, postage prepaid.

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Damon E. Xenopoulos